

Message Text

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E.O. 11652: GDS

TAGS: ELAB, EINV, PINT, PO

SUBJ: ELECTRONICS COMPANY TO CLOSE

SUMMARY: ONE MULTINATIONAL ELECTRONICS FIRM WILL CLOSE ITS FACTORY IN PORTUGAL IN EARLY 1977 AND ANOTHER IS CONSIDERING CLOSURE. IN BOTH CASES GOP OFFICIALS HAVE SHOWN REALISTIC ATTITUDES. IN THE FIRST CASE THEY APPARENTLY ACCEPTED THE COMPANY'S DECISION TO CLOSE, AND IN THE OTHER, OFFERED TO DISCUSS TERMS WHICH WOULD ALLOW COMPANY TO CONTINUE OPERATIONS. END SUMMARY.

1. SIGNETICS ELECTRONICS COMPANY INFORMED EMBASSY OCTOBER 28 THAT IT INTENDS TO CLOSE ITS ASSEMBLY PLANT IN SETUBAL, DISMISSING ITS 256 EMPLOYEES. FRED LARREA, MANAGER OF OVERSEAS ASSEMBLY OPERATIONS, EARLIER TOLD EMBASSY THAT FIRM HAD DECIDED TO CEASE OPERATIONS ON DECEMBER 4. AFTER DISCUSSION OF POSSIBLE RAMIFICATIONS OF ANNOUNCEMENT, EMBASSY ARRANGED FOR LARREA TO MEET OCTOBER 29 WITH SECRETARY OF STATE FOR EMPLOYMENT (AND INFLUENTIAL PS LEADER) TITO DE MARAIS. LARREA TOLD LABATT THAT DISCUSSION WITH MORAIS WENT SMOOTHLY. ALTHOUGH ORIGINALLY OPPOSED TO CLOSURE, MORAIS FINALLY AGREED THAT COMPANY COULD ANNOUNCE ON NOV 8 ITS INTENTION TO CLOSE AND CEASE OPERATIONS NINETY DAYS LATER, THUS FULFILLING REQUIREMENT FOR NINETY DAYS' NOTICE TO WORK FORCE.

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2. HOME OFFICE OF SIGNETICS IS AT 811 EAST ARQUES AVENUE, SUNNYVALE, CALIFORNIA 94086. WHEN PORTUGUESE SUBSIDIARY WAS ESTABLISHED, SIGNETICS WAS OWNED BY U.S. FIRM CORNING INTERNATIONAL. CORNING OBTAINED TWO OPIC POLICIES FOR SIGNETICS PORTUGUESA. MAJORITY OWNERSHIP OF SIGNETICS SUBSEQUENTLY PASSED TO U.S. PHILIPS CORP., SUBSIDIARY OF DUTCH PHILIPS. WE UNDERSTAND THAT DUE TO CHANGE OF OWNERSHIP OPIC HAS CANCELLED POLICIES.

3. IN LATE 1974 AND EARLY 1975 SIGNETICS PORTUGUESA BY STAGES WAS ABLE TO REDUCE IT WORK FORCE FROM 1200 TO CURRENT LEVEL. REDUCTIONS AND FINAL CLOSURE DECISION PRIMARILY DUE TO NONCOMPETITIVENESS OF LOCAL ASSEMBLY OPERATIONS. SIGNETICS OFFICIALS EMPHASIZED THAT THEY HAD NO LABOR OR PRODUCTIVITY PROBLEMS; ISSUE IS SIMPLY WAGE COSTS. OVERALL DEMAND FOR COMPANY PRODUCTS HAS BEEN POOR AND SIGNETICS OPERATIONS IN FAR EAST CAN PRODUCE AT HALF THE COST. MONTHLY OPERATING LOSS (ABOUT \$100,000) EXCEEDS WAGE BILL.

4. GENERAL INSTRUMENTS FACING A DECISION: A SECOND ELECTRONICS COMPANY, GENERAL INSTRUMENTS LUSITANA (GIL), ALSO IS CONSIDERING CLOSURE. INTERNATIONAL VICE PRESIDENT FRED SHUH INFORMED EMBASSY THAT COMPANY NEEDED RELIEF FROM SEVERAL INDICTMENTS FOR CUSTOMS FRAUD AND PERMISSION TO REDUCE WORK FORCE FROM CURRENT 708 TO 450 (OPTIMUM WOULD BE 300-350) BEGINNING IN JANUARY 1977. CUT-BACK SOLELY TO MARKET CONDITIONS AS COMPANY HAS NO LABOR PROBLEMS. PRINCIPAL MARKET FOR COMPANY'S TV SET COMPONENTS IS UK; INITIAL MARKET PENETRATION IN WEST GERMANY HAD NOT YET OFFSET SINKING UK MARKET.

5. IN JULY 1976 GIL SIGNED AGREEMENT WITH GOP PERMITTING FOUR-DAY WORK WEEK AND TAX REDUCTIONS, WITH WORKERS GIVING UP USUAL 13TH MONTH (CHRISTMAS) BONUS. ARRANGEMENT CUT COMPANY'S LOSSES BY \$750,000.

6. UPON ARRIVAL IN PORTUGAL OCTOBER 25 SHUH WAS PESSIMISTIC ABOUT POSSIBILITY THAT COMPANY WOULD CONTINUE CONFIDENTIAL

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OPERATING HERE. HOWEVER, THE PRIME MINISTER'S LABOR ADVISOR, PELAGIO MADUREIRA, INDICATED TO HIM THAT GOP IS WILLING TO REVIEW FRAUD CHARGES. SECRETARY OF STATE FOR EMPLOYMENT TITO DE MORAIS HELD OUT POSSIBILITY THAT CURRENT ARRANGEMENT FOR REDUCED WORK WEEK AND TAXES MIGHT BE RENEWED AND PERMISSION GRANTED FOR REDUCTION IN WORK FORCE. IN MEETING WITH CHARGE OCTOBER 29 SHUH EXPRESSED CAUTIOUS HOPE THAT GIL WOULD BE ABLE TO OBTAIN

CONDITIONS PERMITTING CONTINUED OPERATIONS IN PORTUGAL.

7. COMMENT: WHILE SOME INDIVIDUALS REMAIN ANTAGONISTIC TO FOREIGN INVESTORS, MOST GOP OFFICIALS APPARENTLY ARE BECOMING MORE UNDERSTANDING OF THE PROBLEMS. IT IS NOTEWORTHY, HOWEVER, THAT SHUH PREDICTED THAT DUE TO INCREASED PRODUCTION COSTS PORTUGAL IS BOUND TO LOSE MOST OF ITS EXPORT-ORIENTED ELECTRONICS INDUSTRY WITHIN THE NEXT SEVERAL YEARS.

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